

Document No. 01  
 NO CHANGE in Class.  
 X DECLASSIFIED  
 Class. CHANGED TO: TS  
 Auth: DDA Memo, 4 Apr 77  
 Date: DDA REG. 77/1765  
 21 FEB 1978 By: o11

OFFICE OF REPORTS AND ESTIMATES, CIA  
 FAR EAST/PACIFIC BRANCH

REFERENCE CENTER LIBRARY

INTELLIGENCE HIGHLIGHTS -- WEEK OF 9 MARCH - 15 MARCH 1948

### GENERAL

#### Philippine Delegate to UN Korean Commission target of Soviets

The Philippine Delegate to the United Nations Korean Commission, Melicio Arranz, has recently issued a series of statements, from Manila, severely criticizing Soviet actions in North Korea.

Mr. Arranz has charged the USSR with establishing a puppet Communist government and with recruiting and arming military forces of Korean nationals in North Korea as an integral part of the Red Army. Mr. Arranz next attracted attention by calling for the use of the atomic bomb to blow aside the obstruction created by the USSR at the 38th parallel. His most recent statement suggests the establishment of military and naval bases by the United States in South Korea. This last pronouncement brought a sharp protest from Yongjeung Kim, President of the Korean Affairs Institute in Washington, D.C. Yongjeung Kim accused him of further aggravating Soviet-American differences and asked for his dismissal. Philippine President Manuel Roxas, in an effort to correct the impressions given of the Philippine position, explained that Senator Arranz had been speaking merely as a private citizen and had been misquoted by the press.

Mr. Arranz, who is President pro tempore of the Philippine Senate has obviously attempted to use his position on the Commission to enhance his political prestige at home. However, his statements have proved embarrassing to his government and have provided the USSR with the opportunity to renew previous charges that the Philippine representative is not a free agent but rather "the lackey of imperialism." The Soviets in recent broadcasts recalled Arranz's widely publicized conference with General MacArthur prior to the assumption of his duties on the Commission, and have added that since the United Nations possess no atomic bomb it is logical to assume that Senator Arranz is speaking for the United States.

#### Retention of New Zealand Forces in Japan

The New Zealand Ministry of External Affairs has informally indicated that a statement of US interest in the maintenance of NZ ground forces in Japan after July 1948 would be of material assistance to the NZ Government in deciding on such a step. General Robertson, Commander in Chief of the British Commonwealth Occupation Forces, has urged that NZ leave her troops in Japan because their withdrawal would seriously handicap the carrying out of UK occupation responsibilities, and might necessitate his asking for US help in garrisoning the UK sector. While the NZ Government agrees in principle with General Robertson, there are compelling domestic reasons for bringing the men back as scheduled. The most important perhaps is the serious labor shortage in New Zealand, which is impeding production for Britain and for NZ's industrial development. It is also giving the militant labor unions a powerful pressure weapon and encouraging them toward irresponsibility.

SECRET

-2-

GENERAL (continued)

Opponents to continued NZ participation in the occupation also claim that as demilitarization, the main purpose of the occupation, has been accomplished, there is no further justification for the heavy expenditures in money and manpower involved.

Because of the Government's slim Parliamentary majority, its decision in the matter will be governed by political considerations. A decision in favor of continued participation is likely to depend on US expression that such a course is necessary and desirable.

SECRET

SECRET

-3-

JAPAN

Formation of Ashida's Cabinet successful. After seventeen days of inter-party negotiations, Japan's new Premier announced the completion of his coalition Cabinet. The same political parties form the new government which comprised the Katayama Cabinet so the new coalition inherits the strains and stresses of the previous government. The Democrats, Socialists and People's Cooperatives hold six, eight and two ministries respectively in the Cabinet. The Socialists have thus gained, at Democrat expense, one more seat than they hold under Katayama. For the first time the Left Wing of the Socialists are represented in the Cabinet, holding two Portfolios including the Labor Ministry. Despite Cabinet representation, the complete support of the Left Wing has not been won and it may be anticipated that in a few months this group will cooperate with the opposition in an effort to eliminate Ashida's Cabinet.

Two further weaknesses of the new Japanese Cabinet are: (a) Katayama's unwillingness to take on a portfolio; (b) the formation of a new conservative group under Liberal Party leadership which will be an enlarged and strengthened opposition. Two leading Japanese politicians, of quite opposite political outlook, give the Ashida Cabinet a life expectancy of slightly over two months. By late May one may expect the political parties to be planning for a new general election.

Silk exports show improvement. KYODO reports a sharp increase in export both of raw silk and silk textiles. The improvement in raw silk export is attributed to a recent 40 percent reduction in price while that in the export of silk textiles is said to be due to the reopening of private trade in August, 1947.

The amount of raw silk exported during the period from July 1946 to the end of 1947 is reported as 38,394 bales, a negligible amount compared to the 550,000 bales exported during 1937. This poor showing was due to competition of synthetics. Since the reduction in price, however, sales of raw silk have risen markedly; in January alone government - to - government transactions amounted to 14,206 bales while from the beginning of the year to 20 February private sales amounted to 4,530 bales. Exports of silk textiles, mostly habutae, have risen so much since the resumption of private trade that the producers are unable to keep up with the demand. However, there is some anxiety that silk textile facilities cannot be expanded to a noticeable degree without incurring prohibitive costs of production.

KOREA

Canadian opposition to US policy. Canadian opposition in the UN Temporary Commission on Korea (UNTCOK) to the holding of elections in South Korea alone may prove to be highly damaging to US prestige in Korea, in the Far East in general, and in the UN. It is based upon Canadian antipathy to what Canada regards as a US proclivity to use the UN to pull its political chestnuts out of the fire. In the particular instance of Korea the Canadian Government feels that supporting the US will put the UN in the position of underwriting an unstable and undemocratic government in Korea.

SECRET

SECRET

KOREA (Cont.)

Canada has consistently opposed both in UNTCOK and in the Interim Committee the holding of elections only in the US Zone. The recent 4 - 2 decision (Canada and Australia opposed) in UNTCOK to approve 9 May as election day requires the Canadian Government to decide whether or not it will withdraw from the Commission. This decision is not expected until after Patterson, the Canadian delegate on UNTCOK, has been recalled to Ottawa for consultation. According to the Department of State "the views which Patterson takes back with him may influence the decision".

Canadian refusal to observe the elections would have the effect of giving outside endorsement to Communists and other leftists in boycotting and possibly attempting to interfere with the UN elections. In addition, Canadian withdrawal from UNTCOK would constitute in effect a strong rebuke to US leadership in the UN by a Western nation. The repercussions of such action would be particularly harmful to US prestige in the Far East. It is impossible at this time to predict the Canadian course of action.

New Zealand attitude toward elections. Although New Zealand supported the US and UK on the question of holding elections in South Korea, indications are that this support was more the result of its belief in the need for Anglo-American solidarity than of conviction that elections should be held. The Secretary of External Affairs expressed his view that the problem was essentially between the USSR and the US, and that reference to the UN accomplished nothing except to overburden that body with an insoluble situation. He also remarked that the US had become involved with some "very unsavory rightist groups" in Korea, as in other areas, and that this connection made active support of American policy difficult and embarrassing to countries like New Zealand.

Australia's Position. Australia's vote against the holding of South Korean elections was based on a belief that such a step could only serve to widen the gulf between the US and USSR, accomplishing no useful purpose for Korea itself. Despite her negative vote, however, she will retain active membership on the Korean Commission and cooperate fully in implementing the majority decision. The Australian Delegation to the UN is attempting to persuade Canada to follow the same course.

SECRET

-5-

CHINAMilitary

In Manchuria, the area south and southwest of Mukden, scene of the Communists winter offensive, was quiet last week following the withdrawal of the bulk of the Communists' forces to the north. However, two of the three Nationalist-held islands north of Mukden have reportedly fallen to the Communists. While reports that Saupingkai has been taken by the Communists remain unconfirmed, the Nationalists have admitted that they withdrew from Kirin, and the nearby hydroelectric installation at Hsiaofengman. The Communists are now attacking Changchun and observers doubt if the Nationalists can continue to hold the city. Occupation of Changchun would complete Communist occupation of the entire Manchurian rail net, uninterrupted occupation and subsequent operation of which will add to the mobility of the Communists and give them more adequate supporting communications for further operations against Mukden.

Meanwhile, the Communists have once again become active on almost all of the north and central China fronts. Communist units launched a strong attack against Paoting, but Nationalist units under Fu Tso-yi claimed to have annihilated over 5 regiments of Communist irregulars east of Peiping. Several Communist units from east Shantung crossed the Lunghai railway in north Kiangsu; Chen Yi and Liu Po-cheng were becoming restive again over a wide area in Honan and Anhui. Other Communist units were in action near Tsinan, provincial capital of Shantung, while still others had broken into the important Lunghai railway city of Loyang. Following the destruction of more than two Nationalist divisions near Ichuan, the Communists threatened both Sian and Yenan.

Political

The Kuomintang Central Executive Committee will meet 20 March and at that time the public will learn whom the Generalissimo will support. Chiang is believed to support the candidacy of Yu Yu-jen, Kuomintang elder statesman. The vice-presidency is sought also by General Li Tsung-jen, now Director of the Generalissimo's Peiping Headquarters. Known to have liberal tendencies, Li has advocated a program of Government reform. US Consul General in Peiping feels that Li is convinced some settlement with Communists is necessary even if this requires the withdrawal of Chiang from political life. So far there is no indication that Chiang is at all sympathetic toward the candidacy of Li.

The China Social and Economic Research Society, made up of Peiping business and professional leaders and claiming to be non-political, has published a program advocating four freedoms, representative government, decentralized administration, non-political army, state ownership of land, important national resources, industries and communications, and an independent foreign policy.

A directive of the Central Committee of the Chinese Communist Party, dated 22 February 1948, implements promises of agrarian reform. Fair treat-

SECRET

-6-

ment of the middle peasants continues to be emphasized and the poor peasants will be the controlling factor only where they are in the majority.

The USSR has rejected a Chinese protest charging Soviet planes with firing on a Chinese transport plane south of Port Arthur on the ground of violation of the Port Arthur base. The Chinese Government, because it claims joint control of that base, probably will not recognize the alleged violation. The US pilots of the CAT plane claimed they were more than 60 miles from Dairen when signaled and fired upon.

There has been a Mongol protest and a Chinese counter protest against alleged violations of the Inner and Outer Mongolian border.

Negotiations for a Sino-Italian Treaty of Amity (without commercial provisions) have reached the final stage. An anti-smuggling pact, similar to the one recently signed with Hong Kong (but not yet ratified by the colonial authorities) has been signed with Portuguese Macao.

Foreign Minister Wang Shih-chieh and Vice President Sun Fo have indicated that China would probably object to any "special strings" being attached to the Chinese aid program, pointing out that no special controls were attached to the economic help to Great Britain and France.

#### Economic

Currency/Prices. Shanghai exchange and commodities experienced a strong upswing during the week ending 12 March. The price of rice rose 50% in spite of adequate stocks and rationing at CN \$2.4 million a picul. Rationed rice is reported inefficiently administered, and of poor quality. The steady depreciation of CN dollars has increased the use of rice and cotton as mediums of exchange and speculation. General nervousness dominates the financial scene, chiefly due to military reverses in Manchuria, possible delay in US aid, and general lack of public confidence in stability for the foreseeable future. The Central Bank of China has reports that its reserves of US dollars is now virtually exhausted.

#### The Shanghai Market

	US \$ Exchange		Wholesale Price of Rice per 172 lb Picul	General Wholesale Commodity Index (1936 = 1)
	Selling Rate			
	Official	Black-		
	"open"	market		
This week (12 Mar 48)	CN \$197,500	480,000	CN \$4,200,000	(3/10/48) 333,531
Week ago (5 Mar 48)	151,000	340,000	2,800,000	(2/28/48) 278,547
Month ago (12 Feb 48)	137,000	185,000	2,000,000	(1/31/48) 197,321
Year ago (12 Mar 47)	12,000	12,000	100,000	18,375

Cotton. There are indications of an approaching crisis in the raw cotton supply which may culminate in critical mill shut-downs if new shipments are not received by May. The shortage is chiefly due to inadequate foreign exchange. Governor Chang Kai-ngau of the Central Bank has informed the US Consul General, Shanghai, that loans have been arranged with the Chase and National City banks for financing 100,000 bales for April shipment. Chang is acting on the premise that if this program is initiated and if US aid is later forthcoming, the latter may be utilized to take over existing procurement commitments and thereby permit saving of Central Bank resources.

SECRET

BURMA

Burmese Communist activities have become a third major political problem facing the Government of Burma as the Burma Communist Party has begun aggressively to exploit the Government's difficulties in dealing with the Karen problem and with internal friction within the government party, the Anti-Fascist League. Unless the Government can bring these three major problems under control, Burma's political stability and promising economic recovery will be seriously jeopardized.

Karen-Burman animosity is an historical problem which has culminated recently in the demand, by a section of the Karen population led by the Karen National Union, for an independent, sovereign state. Prime Minister Thakin Nu, after conferring recently with Karen leaders, denounced the Karen demands, and promised to suppress any revolt with armed force. It has been reported, however, that the Karen National Union plans to establish a parallel government in the event that its claims are ignored. The Karen situation is particularly dangerous because Karen and Burman populations are highly intermixed in the territory desired by the Karens for a Karen state.

Internal friction within the AFL arises from the resentment of the semi-military Peoples Volunteer Organization (PVO) directed against the Socialist Party for the latter's preponderance in responsible government positions. Only the intervention of Thakin Nu on at least two occasions prevented the PVO from seceding from the AFL. Secession remains a possibility and, if it occurs, will seriously weaken the AFL and the GOB, and lead to the formation of numerous splinter parties creating confusion which would be exploited by the BCP.

The preoccupation of the GOB with the Karen and PVO problems has undoubtedly encouraged the BCP to intensify its struggle for power. Early in March the BCP issued a directive ordering the establishment of parallel administrations in four districts of central Burma advocating a program of nonpayment of rents and taxes, forcible occupation of lands, nationalization of private concerns, and agitation by workers, cultivators and servicemen against the GOB. Simultaneously, the BCP bitterly denounced the AFL as the mouth-piece of "Anglo-American imperialists" and, stressing anti-foreign themes, attacked foreign economic and cultural activities in Burma.

In dealing with these three major problems, the government's policy has heretofore tended to appease opposition criticism. Recent Burmese efforts to abrogate US military air rights in Burma represents a GOB attempt to demonstrate its sovereignty and to placate anti-foreign sentiment. Thakin Nu's condemnation of the Karen demand for independence was the first firm deviation from this appeasement. A firm GOB policy toward these three problems, and particularly toward the increasingly implacable Communists, may lead to the use of force. The BCP, the PVO and the Karens are relatively well armed; revolt by any one group would encourage revolt by the others, creating a general insurrection which might prove beyond the capability of the Burmese armed forces to control. If the crises in the relations between the GOB and the Karens and the PVO can be allayed temporarily, the GOB will probably be able to bring the Communist situation under control.

SECRET

SECRET

- 8 -

PHILIPPINES

Laurel announces presidential intentions. Jose P. Laurel, occupation president of the Philippines who was released from collaboration charges by the recent amnesty proclamation, is reported on 9 March to have indicated indirectly but unmistakably that he will run for president in 1949. His stated platform of "economic freedom" for the Philippines will probably be based upon a rationalistic policy at times openly anti-American and running counter to President Roxas' policy of close cooperation with the United States. The first major political reaction to Laurel's announcement was a reported plan of the Liberal Party to purge all pro-Laurel suspects from House of Representatives committees in order to forestall possible disruption to the Administration's legislative program.

US Army loses jurisdictional case arising from Bases Agreement. The Philippine Supreme Court, in an unprecedented decision 12 March, denied the motion of the Philippine-Ryukyus Command to reconsider the first legal case to arise from the US-Philippine Military Bases Agreement. The Court had ruled on 24 February that the case of Jesus Miquilabas, a Filipino civilian employee of the US Army alleged to have stolen \$55,000 worth of supplies from the Manila Port reservation, involved an offense committed in a temporary US installation (as distinguished from a "base") and was therefore within Philippine jurisdiction. This ruling was challenged by PHILRYCOM who filed the petition for reconsideration 8 March on the ground that the theft was committed in a permanent base.

Rejection of this petition by the Supreme Court was anticipated in view of the clear wording of the Bases Agreement which carefully defines: (1) a "base", and (2) the jurisdiction of both the US and the Philippines. The Court decision was accompanied by open criticism of former Ambassador Paul V. McNutt, who had negotiated and signed the Bases Agreement for the US on 14 March 1947. The criticism was based on a letter, written by McNutt on 1 March, 1948 which had been submitted by PHILRYCOM with its reconsideration petition. The McNutt letter stated that use of the Port of Manila reservation "is permanent for the entire life of the [Bases] Agreement unless the two Governments otherwise mutually agree." Justice Gregorio Perfecto, concurring in the Supreme Court decision rejecting this view, wrote: "Having occupied high positions in the Government and being a lawyer himself, he [McNutt] must have presumed and expected the rejection of his letter as evidence. No one can be happy about the uselessness of his letter or the futility of his signature . . . no matter what McNutt would want to be embodied in the agreement, we can and should read only what is actually written in it."

The Supreme Court decision, which US Embassy Manila considers sound, will probably set a precedent for action on the cases of 48 Filipino civilian employees of the US Army who are under investigation for pilferage of approximately \$500,000 worth of US property.

SECRET



AUSTRALIA

UK-Commonwealth cooperation. A definite trend in Australia in support of new approaches to UK-Commonwealth economic and military cooperation has been noted recently. There appears to be a recognition in Australia that (1) a resurgence of the UK as a strong factor in international politics can only come about as a result of the creation of a new power entity made up of the UK and the Dominions (based on the maximum development of each component part and directed toward equal participation in the responsibilities and wealth of great power status); and (2) such a power unit could wield tremendous influence in view of the unexploited resources and geographic locations of the various members. Australia clearly aspires to leadership in the Pacific Area.

A striking example in the military field is the UK rocket range project being constructed in Central Australia for the testing of guided missiles which provides for eventual participation of other Dominions in the cost, organization, and research involved. In the economic field the activities of the British Food Mission in Australia and the influx of British capital for investment in Australian industry is designed to promote cooperative development of the Australian economy with mutual benefits to both countries. In addition to the Food Mission's negotiations for long term contracts covering purchase of Australian grain, meat, and dairy products, it is extending credits through the facilities of the British Overseas Food Corporation for large scale cultivation of hitherto undeveloped areas, particularly in the Northern Territory. A British company, the Electric Supply Corporation, has completed an agreement with the Queensland Government for the exploitation of the Blair Athol coal mines at an estimated cost of £0 million pounds. Terms of the agreement provide that ownership of the mines will revert in 1997 to Queensland which in the meantime will be paid royalties on the expected production of 3 million tons per year. The Charterhouse Investment Trust Co. has established a branch in Sydney with substantial amounts of capital to invest in Australian industries. Its financial resources will be available as partnership capital to engineering, textile, transport, and scientific industries, such as laundries and food processing firms, the progress potential and net annual return of which would seem to justify capital expansion. In addition a number of individual British firms, such as the Nuffield automobile manufacturers and the Courtauld Textile Co. have indicated interest in setting up branches and subsidiaries in the various States.

The emphasis in all these ventures is on establishment of working partnerships rather than debtor-creditor relationships. They will provide considerable stimulus to Australia's industrial progress without involving her in burdensome overseas debts and will furnish equity capital, technical skills and experience, the rights to industrial processes, and the assurance of a share in the fruits of industrial research. If such a program can be effected the UK will benefit in terms of raw materials, will have established industrial facilities removed from the troubled areas of Europe and close to Far Eastern markets, and will have developed additional enterprises with which to earn foreign exchange.

~~SECRET~~